

REFERENCE TITLE: **classroom supplies; deduction; offset**

State of Arizona  
Senate  
Forty-seventh Legislature  
Second Regular Session  
2006

## **SB 1073**

Introduced by  
Senator Martin

### **AN ACT**

AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 12, SECTION 1, CHAPTER 264, SECTION 1, CHAPTER 316, SECTION 2 AND CHAPTER 317, SECTION 10; REPEALING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 292, SECTION 1; AMENDING SECTIONS 43-1022 AND 43-1042, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1089.03; RELATING TO TAXATION OF INCOME.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 43-222, Arizona Revised Statutes, as amended by Laws 2005, chapter 12, section 1, chapter 264, section 1, chapter 316, section 2 and chapter 317, section 10, is amended to read:

43-222. Income tax credit review schedule

Each year the joint legislative income tax credit review committee shall review the following income tax credits:

1. In 2005, sections 43-1087, 43-1088 and 43-1175.

2. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1176 and 43-1181.

3. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165, 43-1166, 43-1167 and 43-1169.

4. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and 43-1178.

5. In 2009, sections 43-1076, 43-1081.01, 43-1083, 43-1084, 43-1162 and 43-1170.01.

6. In 2010, sections 43-1075, ~~and 43-1163.~~

~~7. In 2010, sections~~ 43-1079.01, ~~and 43-1090.01, 43-1163, 43-1167.01~~  
AND 43-1182.

~~8. 7.~~ In 2011, ~~section~~ SECTIONS 43-1074.02 AND 43-1089.03.

Sec. 2. Repeal

Section 43-222, Arizona Revised Statutes, as amended by Laws 2005, chapter 292, section 1, is repealed.

Sec. 3. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

In computing Arizona adjusted gross income, the following amounts shall be subtracted from Arizona gross income:

1. The amount of exemptions allowed by section 43-1023.

2. Benefits, annuities and pensions in an amount totaling not more than two thousand five hundred dollars received from one or more of the following:

(a) The United States government service retirement and disability fund, retired or retainer pay of the uniformed services of the United States, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law.

(b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.

3. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 decreases the beneficiary's Arizona gross income.

4. The amount of any distributions from an individual retirement account as provided for in section 408 of the internal revenue code or from a qualified retirement plan of a self-employed individual as provided for in section 401 of the internal revenue code to the extent that total adjustments made pursuant to this paragraph in all tax years do not exceed the total of all contributions made by the taxpayer to such plans prior to December 31, 1975, which were included in computing Arizona taxable income.

5. The amount of income on an installment receivable which is recognized pursuant to the internal revenue code and which has already been recognized on the death of the taxpayer for purposes of this title for tax years ending before January 1, 1990.

6. Interest income received on obligations of the United States, less any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, which were incurred or continued to purchase or carry such obligations.

7. The amount of any income tax refunds which were received from states other than Arizona and which were included as income in computing federal adjusted gross income.

8. Annuity income included in federal adjusted gross income pursuant to section 72 of the internal revenue code if the first payment with respect to such annuity was received prior to December 31, 1978.

9. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.

10. The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of this title over the losses allowable under section 702(a)(8) of the internal revenue code.

11. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to this title and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the internal revenue code. This paragraph shall apply to all property which is held for the production of income and which is sold or otherwise disposed of during the taxable year other than depreciable property used in a trade or business.

12. The amount allowed by section 43-1024 for amortization, by a qualified defense contractor certified by the department of commerce under section 41-1508, of a capital investment for private commercial activities.

13. The amount of gain included in federal adjusted gross income on the sale or other disposition of a capital investment that a qualified defense contractor has elected to amortize pursuant to section 43-1024.

14. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

15. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for

1 employer paid social security taxes on employee cash tips and the Indian  
2 employment credit that the taxpayer received under sections 45A, 45B, 51(a)  
3 and 1396 of the internal revenue code.

4 16. The amount of prizes or winnings less than five thousand dollars in  
5 a single taxable year from any of the state lotteries established and  
6 operated pursuant to title 5, chapter 5, article 1, except that all such  
7 winnings before March 22, 1983, including periodic distributions from such  
8 winnings made after March 22, 1983, may be subtracted.

9 17. The amount of exploration expenses that is determined pursuant to  
10 section 617 of the internal revenue code, that has been deferred in a taxable  
11 year ending before January 1, 1990 and for which a subtraction has not  
12 previously been made. The subtraction shall be made on a ratable basis as  
13 the units of produced ores or minerals discovered or explored as a result of  
14 this exploration are sold.

15 18. The amount included in federal adjusted gross income pursuant to  
16 section 86 of the internal revenue code, relating to taxation of social  
17 security and railroad retirement benefits.

18 19. To the extent not already excluded from Arizona gross income under  
19 section 112 of the internal revenue code, compensation received for active  
20 service as a member of the armed forces of the United States for any month  
21 during any part of which the member served in a combat zone as determined  
22 under section 112 of the internal revenue code or in an area given the same  
23 treatment as a combat zone for purposes of section 112 of the internal  
24 revenue code.

25 20. The amount of unreimbursed medical and hospital costs, adoption  
26 counseling, legal and agency fees and other nonrecurring costs of adoption  
27 not to exceed three thousand dollars. In the case of a husband and wife who  
28 file separate returns, the subtraction may be taken by either taxpayer or may  
29 be divided between them, but the total subtractions allowed both husband and  
30 wife shall not exceed three thousand dollars. The subtraction under this  
31 paragraph may be taken for the costs that are described in this paragraph and  
32 that are incurred in prior years, but the subtraction may be taken only in  
33 the year during which the final adoption order is granted.

34 21. The amount authorized by section 43-1027 for the taxable year  
35 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

36 22. With respect to a medical savings account established pursuant to  
37 section 43-1028:

38 (a) An eligible individual may subtract:

39 (i) The amount of contributions made by the individual's employer  
40 during the taxable year to the individual's medical savings account pursuant  
41 to section 43-1028 to the extent that the employer contributions are included  
42 in the individual's federal adjusted gross income.

43 (ii) The amount deposited by the individual in the account during the  
44 taxable year to the extent that the individual's contributions are included  
45 in the individual's federal adjusted gross income.

(b) The individual's employer may subtract the amount of contributions made by the employer to a medical savings account established on the individual's behalf to the extent that the contributions are not deductible under the internal revenue code.

23. The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to section 43-1029, subsection F exceeds the net operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

24. Any amount of qualified educational expenses that is distributed from a qualified state tuition program determined pursuant to section 529 of the internal revenue code and that is included in income in computing federal adjusted gross income.

25. Any item of income resulting from an installment sale that has been properly subjected to income tax in another state in a previous taxable year and that is included in Arizona gross income in the current taxable year.

26. The amount authorized by section 43-1030 relating to holocaust survivors.

27. The amount authorized by section 43-1031 for constructing an energy efficient residence.

28. An amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(2)(C)(iii) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

29. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1021, paragraph 26 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current or prior taxable years.

30. With respect to property for which an adjustment was made under section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of the adjustment pursuant to section 43-1021, paragraph 27 in the year in which the amount was adjusted under section 43-1021, paragraph 27 and in each of the following four years.

31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, THE AMOUNT OF UNREIMBURSED COSTS THAT ARE PAID BY A QUALIFIED TEACHER FOR EDUCATIONAL SUPPLIES AND MATERIALS USED IN A CLASSROOM IN THIS STATE IN A KINDERGARTEN PROGRAM OR GRADES ONE THROUGH TWELVE AND THAT EXCEED THE AMOUNT SET OFF PURSUANT TO SECTION 43-1089.03. FOR THE PURPOSES OF THIS PARAGRAPH, "EDUCATIONAL SUPPLIES AND MATERIALS" AND "QUALIFIED TEACHER" HAVE THE SAME MEANINGS PRESCRIBED IN SECTION 43-1089.03.

1       Sec. 4. Section 43-1042, Arizona Revised Statutes, is amended to read:  
2       43-1042. Itemized deductions

3       A. Except as provided by subsections B, D, ~~and~~ E AND F of this  
4 section, at the election of the taxpayer, and in lieu of the standard  
5 deduction allowed by section 43-1041, in computing taxable income the  
6 taxpayer may take the amount of itemized deductions allowable for the taxable  
7 year pursuant to subtitle A, chapter 1, subchapter B, parts VI and VII, but  
8 subject to the limitations prescribed by sections 67, 68 and 274, of the  
9 internal revenue code.

10       B. In lieu of the amount of the federal itemized deduction for  
11 expenses paid for medical care allowed under section 213 of the internal  
12 revenue code, the taxpayer may deduct the full amount of such expenses.

13       C. Notwithstanding subsection B of this section, expenses for medical  
14 care that are paid or reimbursed from the taxpayer's medical savings account  
15 pursuant to section 43-1028 shall not be deducted pursuant to this section.

16       D. A qualified defense contractor that is identified and certified by  
17 the department of commerce pursuant to section 41-1508 shall not claim both a  
18 deduction as provided by this section and a credit under section 43-1078 with  
19 respect to the same property taxes paid.

20       E. A taxpayer shall not claim both a deduction provided by this  
21 section and a credit allowed by this title with respect to the same  
22 charitable contributions.

23       F. A TAXPAYER SHALL NOT CLAIM A DEDUCTION PROVIDED BY THIS SECTION FOR  
24 EDUCATIONAL SUPPLIES OR MATERIALS FOR WHICH THE TAXPAYER CLAIMED A  
25 SUBTRACTION UNDER SECTION 43-1022, PARAGRAPH 31 OR AN OFFSET UNDER SECTION  
26 43-1089.03.

27       ~~F.~~ G. The taxpayer may add any interest expense paid by the taxpayer  
28 for the taxable year that is equal to the amount of federal credit for  
29 interest on certain home mortgages allowed by section 25 of the internal  
30 revenue code.

31       Sec. 5. Title 43, chapter 10, article 5, Arizona Revised Statutes, is  
32 amended by adding section 43-1089.03, to read:

33       43-1089.03. Setoff for educational supplies; refund;  
34       definitions

35       A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, A  
36 TAXPAYER WHO IS A QUALIFIED TEACHER MAY OFFSET THE TAXES IMPOSED BY THIS  
37 TITLE BY THE AMOUNT OF UNREIMBURSED COSTS PAID DURING THE TAXABLE YEAR FOR  
38 EDUCATIONAL SUPPLIES AND MATERIALS THAT ARE USED IN A CLASSROOM IN THIS  
39 STATE, BUT NOT TO EXCEED TWO HUNDRED FIFTY DOLLARS.

40       B. IF THE ALLOWABLE AMOUNT UNDER SUBSECTION A OF THIS SECTION EXCEEDS  
41 THE AMOUNT OF TAX DUE UNDER THIS CHAPTER, AFTER ANY SETOFF UNDER SECTION  
42 42-1122, THE EXCESS SHALL BE PAID IN THE SAME MANNER AS A REFUND UNDER  
43 SECTION 42-1118.

1 C. FOR THE PURPOSES OF THIS SECTION:

2 1. "EDUCATIONAL SUPPLIES AND MATERIALS" MEANS ITEMS THAT ARE ALLOWABLE  
3 AS A DEDUCTION UNDER SECTION 162 OF THE INTERNAL REVENUE CODE AND THAT ARE  
4 PURCHASED BY A QUALIFIED TEACHER IN CONNECTION WITH BOOKS, SUPPLIES, COMPUTER  
5 EQUIPMENT, INCLUDING RELATED SOFTWARE AND SERVICES, AND OTHER EQUIPMENT AND  
6 SUPPLEMENTARY MATERIALS USED BY THE TEACHER IN A CLASSROOM LOCATED IN THIS  
7 STATE.

8 2. "QUALIFIED TEACHER" MEANS A FULL-TIME TEACHER OF A KINDERGARTEN  
9 PROGRAM OR GRADES ONE THROUGH TWELVE IN A CLASSROOM IN THIS STATE.

10 Sec. 6. Purpose

11 Pursuant to section 43-223, Arizona Revised Statutes, the legislature  
12 enacts section 43-1089.03, Arizona Revised Statutes, as added by this act, to  
13 provide income tax relief for teachers who personally purchase school  
14 supplies and materials for use in a classroom in this state.